University of Zurich[UZH]

Department of Business Administration

UZH Business Working Paper Series

(ISSN 2296-0422)

Working Paper No. 316

Implementing Corporate Social Responsibility: Empirical Insights on the Impact and Accountability of the UN Global Compact

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31 August 2012

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http://www.business.uzh.ch/forschung/wps.html

UZH Business Working Paper Series

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IMPLEMENTING CORPORATE SOCIAL RESPONSIBILITY: EMPIRICAL INSIGHTS ON THE IMPACT AND ACCOUNTABILITY OF THE UN GLOBAL COMPACT

ABSTRACT

The implementation of Corporate Social Responsibility (CSR) is crucial for organizational legitimacy in today's globalized world. In the absence of a global governance system, several initiatives have emerged to support companies in designing, implementing and communicating CSR. However, research has so far mainly neglected to empirically evaluate the impact of such initiatives on organizational practices. This study aims to close this gap by analyzing on a large quantitative basis how business participants in the largest voluntary CSR initiative - the UN Global Compact (UNGC) - embed CSR into their organizations. Drawing on insights from institutional and stakeholder theory, I derive determinants of UNGC implementation and analyze the accountability of the initiative. My study contributes to the literature in several ways: I develop a theoretical model to describe and explain variation in UNGC implementation, and scrutinize the new measure for UNGC implementation. My results show that the initiative affects organizational practices: Contrary to the bluewashing arguments of UNGC critics, the level of CSR implementation increases with the time of membership in the UNGC. However, my findings also suggest that the declared participant information still lacks credibility - higher UNGC implementation levels are not associated with significantly less UNGC scandals. Implications for CSR research, the Global Compact and its participants are discussed.

KEYWORDS: CSR implementation, Global Compact, Differentiation Programme

INTRODUCTION

Corporate Social Responsibility (CSR) has gained such prominence in theory and practice (McKinsey & McKinsey 2007, The Economist 2005, Margolis and Walsh 2003, De Bakker et al. 2005, Lockett et al. 2006) that its organizational implementation is evolving to one of the key challenges (Gilbert and Rasche 2008, Knudsen 2011, Lindgreen et al. 2009, Maon et al. 2009). In the process of globalization, many companies extended their operations across national boarders and gained greater economical and social power than some governments (Garriga and Melé 2004). With increasing transnational corporate activities, the power of national governmental agencies to sufficiently regulate multinational corporations (MNCs) and to produce public goods is eroding (Scherer and Palazzo 2008, Habermas 2001, Kobrin 2001). Social and environmental externality problems, such as human rights violations, global warming, or corruption have reached a level at which they can no longer be managed by unilateral national policy alone due to their transnational causes and effects.

While there has been growing legislation on transnational business activities over the last decades, governments have so far failed to appropriately address these social and environmental challenges on an international level (Boatright 2000, Velasquez 2000). In consequence, the expectations of various societal actors for businesses to take on public responsibilities have increased (Aguilera et al. 2007, Campbell 2007, Crane and Matten 2004, McKinsey & McKinsey 2007: p.7). The pressures are real, as industry leaders like Nike, Exxon, Nestlé, and Pfizer can attest (Maon et al. 2009). Companies may hence no longer act solely as isolated players but more and more as political ones (Kaul et al. 2003, Matten and Crane 2005, Scherer, Palazzo and Baumann 2006).

Social Accountability Initiatives like the UN Global Compact (UNGC), the SA 8000 social accountability standard or the ISO 26000 CSR standard constitute a promising approach for businesses to complement efforts by legislation to better address social, environmental and corporate governance issues (Hess 2001, Gilbert 2003, Frost 2005, Christmann and Taylor 2006). However, the effectiveness of CSR implementation through social accountability initiatives has received only limited empirical attention despite its significance in the corporate world (Christmann and Taylor 2006, Maon et al. 2009, Margolis and Walsh 2003, O'Rourke 2003, Runhaar and Lafferty 2009).

Scholarly research has so far mainly focused on the business case of CSR (Margolis and Walsh 2003, Orlitzky et al. 2003) or the business-society interface from a macro perspective (Crane et al. 2008). Further, CSR has mainly been treated as a domestic phenomenon (see for example: Christmann and Taylor 2006), thus lacking a global perspective (Scherer and Palazzo 2007, Scherer and Palazzo 2008). We therefore do not know much about how businesses implement global CSR standards in their organizational structures and procedures. The few exceptions empirically analyzing the implementation of the largest voluntary CSR standard worldwide – the UNGC - are based on a few cases only and were not designed to assess impacts through membership (Baumann and Scherer 2012, Rieth 2009) or examined only particular CSR policies relying on implementation measures not directly tied to the UNGC principles (Bernhagen and Mitchell 2010).

The aim of this work is to fill-in this void by conducting a large-scale empirical analysis describing and explaining variation in UNGC implementation. The initiative encourages businesses to support 10 universal principles in the areas of human rights, labor standards, the environment, and anti-corruption (see Appendix 1). The overarching goal of the UNGC is to serve as a longtime CSR learning-platform (Rasche 2009). However, critics point to the initiative's lack of accountability mechanisms and implementation guidance stimulating the misuse of the UNGC as a marketing tool (Hemphill 2005, Williams 2004). This possibility to "bluewash" a company's image through association with the (blue) UN flag raises the key question of how well the initiative is working. Put differently, *"what is the impact of this* *initiative on firms as well as on society?"* (Knudsen 2011). Until recently, it has hardly been possible to quantitatively analyze the implementation of CSR in such an extended context. Only since the introduction of the UNGC "Differentiation Programme" in February 2011, the Compact provides its members with the possibility to choose between different levels of CSR implementation – Learner, Active, and Advanced. Companies aiming for Advanced implementation have to fulfill a list of Advanced implementation criteria and best practices.

I develop a model of UNGC implementation depicting the impact of UNGC membership as well as general determinants of implementation. While recent practitioner studies ascertained a rather high impact on CSR implementation through UNGC membership, critics especially from academia continue to deny any such impact. To solve this puzzle, I assess the UNGC's net impact based on the objective and easily observable measure "UNGC membership time" by analyzing whether longer time members implement the initiative at higher levels than newer members. As a UNGC member, companies have to continuously collaborate and communicate with their stakeholders through several UNGC network events. Stakeholder theory (e.g. Donaldson and Preston 1995, Freeman 1984, Jones 1995) suggests that such a management of stakeholder relationships has an impact on organizational practices.

In order to analyze this possible impact of UNGC membership, I control for common determinants of CSR to create a comprehensive model of UNCG implementation.

Before actually empirically testing the model, I analyze the appropriateness of the new "Differentiation Programme" to serve as a valid CSR implementation measure based on the theoretical assessment tool by Baumann and Scherer (2012), which is by now to the best of my knowledge the only assessment tool directly referring to the UNGC.

By studying implementation trends for a great number of business organizations, I have to rely on the information *declared* by participants. This relates to the second crucial issue for an initiative like the Global Compact, which is to achieve accountability (see for example

Hemphill 2005, Rasche 2009, Williams 2004). Accountability in the UNGC would imply that the information declared by participants is generally trustworthy. Previous research has shown, however, that *formal* CSR implementation can be significantly "decoupled" from *actual* day-to-day implementation (Aravind and Christmann 2011, Behnam and MacLean 2011). The UNGC however has realized several steps towards reducing the risk of decoupling, e.g. by providing clearer guidance on UNGC implementation, and by raising the cost of adoption as well as the transparency of the initiative by introducing a "Communication on Progress" policy.

To examine whether this extended accountability structure generally ensures that declared implementation corresponds with actual UNGC implementation, I use the following approach: Given that the newly introduced implementation criteria aim to stimulate the alignment of company structures and processes with the 10 UNGC principles, we may expect the likelihood of a firm's future actions conflicting with the 10 principles to go down in the case of substantial implementation. Contrarily, there is little reason to assume that an exclusively symbolic UNGC implementation lowers a firm's CSR scandal likelihood. To measure the firm's risk of conflicting with the 10 UNGC principles, I use comprehensive media data on corporate risks regarding exactly these principles.

I will hence analyze the relationship between UNGC implementation and corporate UNGC risks to get insights on whether declared implementation corresponds with actual implementation.

The following two research questions are consequently underlying my study:

1. *Does UNGC membership time affect declared UNGC implementation?*
2. *Does the new UNGC accountability structure ensure that declared UNGC implementation corresponds with actual UNGC implementation?*

IMPLEMENTING CSR IN THE GLOBAL COMPACT: THEORY AND EMPIRICAL EVIDENCE

While the question of why companies assume social responsibilities has been intensively covered in the literature (Vogel 2005), the question of how they implement CSR in the organization has long been neglected despite its high practical relevance. Literature on CSR over the last decades mainly concentrated on whether CSR is good business (Orlitzky et al. 2003, Margolis and Walsh 2003, Peloza 2009). Margolis and Walsh (2003) reviewed literature on CSR between 1972 and 2002 and found that most reviewed studies treated CSR as a "black box" independent variable, while only 15 percent examined CSR as the dependent variable. In particular, ambiguities exist on which business practices should count as socially responsible behavior (Lindgreen et al. 2009) and even less is known on how organizations implement such activities (Rasche 2009, Christmann and Taylor 2006).

Recently, Social Accountability Initiatives like the UN Global Compact (UNGC), the SA 8000 social accountability or the ISO 26000 CSR standard have emerged as a promising way for businesses to address social, environmental and corporate governance issues in the absence of a legally binding global governance system (Hess 2001, Gilbert 2003, Frost 2005, Christmann and Taylor 2006). However, the effectiveness of these initiatives regarding the promotion of CSR implementation has been questioned and received only limited empirical attention up to now (Christmann and Taylor 2006, Maon et al. 2009, Margolis and Walsh 2003, O'Rourke 2003, Runhaar and Lafferty 2009). While there is some evidence that under certain conditions, international certifiable standards like the ISO 9000 general management standard or the ISO 14001 environmental management standard impact organizational practices (Christmann and Taylor 2006, Potoski and Prakash 2005), research on the effectiveness of global standards like the UNGC covering the whole CSR spectrum so far rely on few cases only (Baumann and Scherer 2012, Runhaar and Lafferty 2009), employ a domestic focus (Rieth 2009), and/or use measures for UNGC implementation that are either binary or lack a direct reference to the intitative (Bernhagen and Mitchell 2010, Perez-Batres et al. 2011).

In this study, I want to close the knowledge gap on the effectiveness of global voluntary CSR standards by theoretically developing and empirically testing a model of CSR implementation in the largest voluntary CSR initiative worldwide - the UN Global Compact. I use the UNGC as a framework to define corporate socially responsible behavior and assess the implementation of CSR in organizational structures and processes for the following reasons:

1) Theoretical fit: The UNGC best employs the extended notion of CSR in a context of global business activities in the absence of a global governance system (Matten and Crane 2005, Scherer et al. 2006). In today's globalized world with national state actors losing more and more momentum in controlling increasingly trans-nationalized corporate activities, Matten and Crane (2005) propose an extended view of CC as "the role of the corporation in administering citizenship rights for individuals". According to this definition, corporations act as a provider of social rights, an enabler of civil rights and a channel for political rights. However, corporations need legitimacy for their actions (Suchman 1995). Scherer et al. (2006) argue that „In the current transition from a stable industrial society to a globalized post-industrial society, (...), moral legitimacy has become the core source of societal acceptance." The interest of corporations to gain (moral) legitimacy by joining the Global Compact can be well explained in our present context with more and more fragmented regulatory authority leading to joint governance efforts by public and private actors (Scherer et al. 2009).

Matten and Crane (2005) as well as Scherer et al. (2006) refer to the UNGC as a comprehensive initiative capturing their extended CSR concept.

> *„The UN global compact illustrates the capacity that international institutions have to create platforms for self-regulation and deliberation between corporations and civil-*

> *society actors concerning global social and environmental challenges." (Scherer et al. 2006)*

Similarly, the UNGC summarizes its objective as follows:

> *Amid a backdrop of rising concerns about the effects of globalization, the Secretary-General called on business leaders to join an international initiative - the Global Compact - that would bring companies together with UN agencies, labour, non-governmental organizations and other civil-society actors to foster action and partnerships in the pursuit of a challenging vision: a more sustainable and inclusive global economy. (Global UNGC 2002)*

It is to note that the Global Compact has been referred to as both a CSR and a "Corporate Citizenship" (CC) initiative. While some scholars even equated the notions CSR and CC (see for example Carroll 1979, Carroll 1991, Carroll 1998), I refer to the UNGC as just one particular form of CSR or CC. As there may also be forms of CSR or CC in the literature with a different focus, my arguments and findings may only be applied to CSR or CC in general with caution.

2) Scope: The Global Compact is the largest and arguably most ambitious voluntary CSR initiative (Banerjee 2007, Rasche 2009, Vormedal 2005). Unlike for example the ISO 14001 environmental management standard or the SA 8000 social standard, the principles of the UNGC span the whole spectrum of CSR issues ranging from human rights and labor standards to environmental and corporate governance issues (for an overview of CSR standards and institutions, see: Waddock 2008, Gilbert et al. 2011).

3) Measure: The UNGC recently introduced a new policy called "Differentiation Programme" to provide a comprehensive measure for CSR implementation that differentiates between different stages of progress. In the methods section, I will analyze whether this policy constitutes an appropriate framework for measuring CSR implementation based on the theoretical implementation tool of Baumann and Scherer (2012), which is to my knowledge the only existing academic tool appropriate to assess UNGC assessment.

Large existing initiatives trying to assess CSR like the Dow Jones Sustainability Index (DJSI), the Financial Times Stock Exchange 4GOOD (FTSE4GOOD) index, or the

“FORTUNE World’s Most Admired Companies” list lack a direct reference and theoretical correspondence to the underlying extended CSR concept.

The United Nations Global Compact: Toward a refined accountability structure. Initiated by the former UN secretary general Kofi Annan at the World Economic Summit in Davos 1999, the UNGC was formally launched on 26 July 2000. The initiative engages the private sector to collaborate with the United Nations to identify and spread good practices regarding its 10 universal principles (Ruggie 2001) in the area of human rights, labor rights, protection of the environment, and anti-corruption (see Appendix 1). The 10 principles are derived from the Universal Declaration of Human Rights, the Fundamental Principles on Rights at Work from the International Labour Organisation, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption (UNGC 2012a); as such, they enjoy universal consensus among all signatories.

More and more companies joined the UNGC which soon evolved to the largest corporate citizenship initiative in the world (Hemphill 2005) with currently 6,820 business participants (data as of 08 January 2012). The primary goal of the initiative is to provide learning experience for its members in implementing the 10 UNGC principles.

Since its foundation, this evolutionary framework has received both a lot of support as well as criticism. The two major allegations towards the UNGC stated by a number of scholars (e.g.: Hemphill 2005, Rasche 2009, Williams 2004) can be summarized as follows: 1) “The Compact’s principles are vague and thus hard to implement.” 2) “The Compact is not accountable due to missing verification.”

Concerning the first allegation, Deva (2006) criticizes that the UNGC principles hardly provide concrete guidance to companies about their expected conduct. Although corporations have to report on their progress made regarding the implementation of the 10 principles since the introduction of a compulsory “Communication on Progress (COP)”, this policy lacked for a long time standardized criteria as well as incentives for stricter implementation. Given this structure of the Compact, it was possible for a participant to highlight just one CSR area with a superior record in order to conceal other issue areas with a poorer record (Williams 2004). The lack of the Compact's clarity led to unclear expectations and multiple interpretation possibilities among adopting organizations. On the other hand, Rasche (2009) notes that over-specified principles could even turn out to be counterproductive if they limit the scope of possible solutions right from the start. Moreover, the global reach and diverse participant base of the Compact requires a certain degree of generalizability of the principles.

Nevertheless, the conviction emerged on the side of the UNGC that it has to react on regard of this "lack-of-clarity" issue. On its 10th anniversary summit, the UNGC and its stakeholders decided to further stimulate CSR integration by initiating a program, through which member organizations can for the first time differentiate themselves from other members by adhering to different levels of CSR implementation criteria. The three basic levels of the so-called Differentiation Programme introduced in February 2011 are "Learner", "Active" and "Advanced". In both the Advanced as well as the Active level criteria (see UNGC 2012b), the possibility to highlight just one issue area in order to conceal others of poorer record disappears. Companies need to report on each issue area (human rights, labor, environment, anti-corruption) separately. Additionally, for the Advanced level, companies have to meet in their annual COP reports all of 24 criteria providing detailed guidance for CSR integration. A criterion is met when a company communicates its implementation or planned implementation of one or more of the commonly accepted best practices suggested under each criterion. Companies can only exclude single issues, if they can outline why that particular issue is not applicable to the organization's specific operating context.

HYPOTHESES DEVELOPMENT

Impact of UNGC membership time on UNGC implementation: Insights from Stakeholder Theory

While there are several conceptual studies that examine the content and structure of the Global Compact (Deva 2006, Nolan 2010, Williams 2004, Thérien and Pouliot 2006), there are almost no empirical insights about the impact of the initiative on existing business practices (see Rasche 2009, Schmitz et al. 2011, Knudsen 2011). Empirical studies on this matter so far mainly focus on few cases or certain policies only, are perception based and/or use measures that fail to capture the comprehensiveness of the UNGC (Bernhagen and Mitchell 2010, Baumann and Scherer 2012, Schmitz et al. 2011, Knudsen 2011, McKinsey & McKinsey 2007). No theoretical model has thus far been developed to capture the net impact of the UNGC together with general determinants for UNGC implementation. One of the most crucial questions regarding the UNGC hence remains to be answered: *Have business participants changed existing practices over the time of UNGC membership?*

While this may seem self-evident for some scholars, others propose that companies simply join to benefit from the good UN reputation without changing anything (see Deva 2006, Williams 2004).

The goal to enhance corporate learning is demonstrated in the Compact's network structure (Palazzo and Scherer 2010, Rasche 2009, Williams 2004). The central actors of this network structure are businesses, governments, civil society organizations and labor. To link these actors, the UNGC established three engagement mechanisms: *learning events*, *dialogue events* and *partnership projects*. *Learning* and *dialogue events* are closely related. The former, however, particularly focus on sharing pre-established solutions and best practices while the latter specifically aim to find new ideas to promote the 10 UNGC principles. Learning is supposed to occur both on the global level through direct interaction at International Learning

Forum Meetings and the UNGC website, and on the local level in so-called network meetings. On both levels, this sharing of best practices and following of notable examples among participants is crucial for learning (Rasche 2009). Indeed, Cetindamar and Husoy (2007) found that UNGC membership has led to better networking opportunities. According to a survey by Vormedal (2005), local networks have been attended regularly and participants indicate that meetings have been fruitful thanks to the more intense and small-scale interactions that allowed them to learn from one another's experiences.

Regarding a concrete and measurable outcome of UNGC membership, Mwangi, Rieth and Schmitz (2011) suggested an impact of certain learning networks on business routines; however, they only analyzed local learning opportunities based on the analysis of two local networks. Their results are therefore not be generally valid and further neglect learning effects of other networks e.g. International Learning Forum Meetings among others. The complete effect of stakeholder networking on UNGC implementation hence remains to be examined.

The UNGC approach for achieving learning experience through networking and dialogue can be theoretically explained through insights from stakeholder theory. Stakeholders are commonly defined as those "groups or individuals who can affect, or are affected by, the achievement of an organization's mission" (Freeman 1984: p. 54). Stakeholders (e.g. NGOs) are the central actors that produce accountability standards like the UNGC and are supposed to benefit from their implementation (e.g. employees). As such, stakeholders shape the discussion of how standards are put into practice (Gilbert and Rasche 2008). In his instrumental stakeholder theory, Jones (1995) argues that certain types of CSR (or corporate social performance) implementation are manifestations of attempts to establish trusting, cooperative firm/stakeholder relationships. Scholars therefore widely agree that firm interaction with stakeholders is a driver for UNGC implementation (Simmons 2009, Schmitz et al. 2011) or CSR in general (Campbell 2007: p. 962), given that these societal actors have vested interests in seeing the commitment translate into actions. There are several CSR integration process models developed on the basis of particular company cases, the most prominent of which is arguably the one by Zadek (2004) about Nike. However, many scholars argue that there is no "one best way" to manage organizational change (Burnes 1996), and research has so far failed to develop one accepted organizational learning theory (Crossan et al. 2011). In this context, we can understand why the recent CSR implementation framework of Maon, Lindgren and Swan (2009) incorporating previous literature on the process of CSR implementation remains rather abstract. Yet, one means to achieve change in this framework underpinned all other CSR implementation steps: "continuous stakeholder dialogue". Burns (2004) argues that learning about stakeholder expectations and the specific operating context help to make the change beneficial and support it with the appropriate mechanisms.

Previous empirical studies suggest that learning indeed occurs among UNGC members (UNGC 2011, McKinsey & McKinsey 2007). The results may be treated with caution, however, as these studies had to rely on the perceptions of the participants themselves.

Following the arguments from stakeholder theory and previous empirical findings, I expect that the UNGC stakeholder engagement events lead to higher UNGC implementation. Due to the considerable number of networking events available for UNGC members, we may assume that - on average - the total amount of a company's stakeholder engagement increases with the time of UNGC membership. Given that all existing documents for implementation guidance are publicly available, there is in fact no other direct benefit exclusively available for UNGC members. Hence, membership time can be used to capture the amount of a firm's stakeholder engagement within the UNCG, and as such to assess the impact of UNGC membership as a whole. Consequently, my first hypothesis states as follows:

Hypothesis 1. Participants of longer membership time have achieved higher levels of UNGC implementation than newer ones.

Unfortunately, this hypothesis is no tautology. It would be very wishful, if the mere presence of learning opportunities produced measurable outcomes. Yet, companies may just be more interested in UN reputation spillovers than in learning. Given that there is no conventional enforcement process installed, companies might actually be able to follow this intend (Deva 2006, Williams 2004), which I will outline when deriving my second hypothesis below.

Controlling for general determinants of UNGC implementation

We have to acknowledge that the impact of stakeholder management through UNGC events is highly situational and dependent on a number of factors. According to previous research, most of these factors relate to the visibility and the resources of the firm as well as the institutional background wherein the CSR dialogue takes place (Mitchell et al. 1997). To be able to trace the net impact of the Global Compact's learning and network events, we have to take into account such conditions under which higher implementation is more likely to occur. Deriving hypotheses of UNGC implementation regarding each of these previously identified CSR determinants would necessitate a more differentiated level of analysis going beyond the scope of this study. I will therefore rather briefly summarize the key arguments of prior research, and use these variables as controls.

Firm size

Scholars have identified the increasing scope and economic interdependence of many corporations as important drivers for adopting CSR initiatives (Baron 1995, Kostova and Zaheer 1999, Porter and Kramer 2006, Vogel 2008). Previous empirical results suggest that bigger firms are more likely to join the UNGC (Bennie 2007), while we do not know yet whether they are also better implementers.

The bigger a firm, the more visible become its actions and the more scrutiny they get (Baker 2010). Large firms are most likely to respond to demands for change and engage in political activity. Due to a greater market power but also a higher likelihood of being involved in economic and political conflict, they are more likely to benefit from their engagement with international governmental or non-governmental organizations (Bennie 2007). Furthermore, the capacity to become politically active increases with firm size (Martin 2000).

Similarly, the amount of available (financial) resources is likely to explain CSR investments. Without separately controlling for the effect of available resources, we assume that larger firms are more likely to have discretionary resources to invest in CSR (see also Jackson and Apostolakou 2010).

Assuming that CSR is no longer understood as a binary yes-or-no task, the risk of economic and political conflict as well as the scrutiny by external actors may not simply disappear when joining the UNGC. We may therefore expect that larger firms not only use their greater resources and capacity to join the Global Compact (Jorgensen 2006), but also to better implement its principles.

It is to note that the outlined argument about the relationship between company size and UNGC implementation refers particularly to the UNGC as well as to other forms of "explicit" CSR engagement. Using the implicit-explicit CSR terminology of Matten and Moon (2008), it appears plausible that smaller firms do not necessarily act less responsible than bigger ones; rather, they may approach CSR issues in more implicit ways without experiencing the need to explicitly formulate CSR policies and structures as required for higher levels of UNGC implementation.

Taking these arguments together, we may expect that bigger firms are more likely to implement the UNGC at higher levels than smaller ones.

Beyond a firm's visibility and its resources, the institutional context in which the firm operates may shape decisions to implement the UNGC. Institutional theory suggests that business organizations are embedded in a nexus of formal and informal rules (North 1990). According to neo-institutional theory, companies adopt institutionalized forms of behavior in a pursuit of gaining internal and external legitimacy (Scott 1995). In certain institutional contexts, the behavior of companies over time may strongly resemble one another - a process referred to as institutional isomorphism (DiMaggio and Powell 1983). Institutional perspectives on CSR hence suggest that firm decisions are framed in a broader social context, for example by drawing upon available narratives and benchmarks against prevailing norms or existing practices (Humphreys 2008).

Scholars have proposed a variety of such institutional factors (Campbell 2007, Ioannou and Serafim 2010, McWilliams and Siegel 2001). Based on these works, the following three factors can be identified as the most important ones.

National institutional conditions

When looking at the geographical concentration and dispersion of UNGC member companies, it becomes apparent that the interest into the UNGC is strongly dependent on country contexts. For example, US companies are heavily underrepresented in the Global Compact, whereas companies from France and Spain are highly overrepresented. However, the mere fact that companies from certain countries are more likely to join the initiative does not tell us whether these companies are also committed to better implement its 10 principles.

Campbell (2007) proposes certain national institutional conditions of socially responsible behavior. He identifies a strong and well-enforced state regulation as the most obvious driver for CSR and supports his claim by analyzing US firm behavior in response to waves of US regulation and deregulation in the course of the twentieth century. Further, Campbell (2007) identifies that the presence of strong trade or employee associations, if organized in ways contributive to socially responsible behavior, is a strong driver for CSR integration.

One prominent possibility of grouping such national institutional conditions into a rough framework is by looking at different types of national business systems (Aguilera et al. 2007, Matten and Crane 2005, Jackson and Apostolakou 2010). Usually, two types of national business systems are distinguished. 1) Liberal Market Economies (LME) characterized by equity financing, dispersed ownership, active markets for corporate control, weak inter-firm cooperation and flexible labor markets, and 2) Coordinated Market Economies (CME) characterized by long-term debt finance, ownership by large block-holders, weak markets for corporate control, stronger inter-firm cooperation and more rigid labor markets (Jackson and Apostolakou 2010). Typical LME systems can be found in the US and the UK, while CME systems are typically found in Continental Europe or Japan (Hall and Soskice 2001).

The two characteristics identified above, state regulation and employee associations, are closely associated with the CME national business system. Jackson and Apostolakou (2010: p. 375) therefore propose that "firms with headquarters in CME countries will adopt more extensive CSR practices relative to similar firms with headquarters in LME countries."

However, assuming again that the UNGC is a more explicit form of CSR, companies from CME countries may take certain responsible practices for granted without explicitly communicating them through highly visible international accountability. In contrast, firms from LME countries may seek to compensate for lacking state regulation and employee association by voluntarily adopting more explicit forms of CSR (Jackson and Apostolakou 2010, Khanna et al. 2006).

Again, it is beyond the scope of this study to analyze in detail under what particular conditions which of the two directions of argumentation might prevail. Previous empirical results of Jackson and Apostolakou (2010) - analyzing CSR scores according to another highly visible and explicit international CSR initiative, the Dow Jones Sustainability Index - suggest that CSR scores are higher for companies in LME countries, arguably because institutionalized coordination may substitute for explicit CSR practices. Translating their argument to the context of this study, *one may expect UNGC implementation to be higher in countries with liberal market economies as opposed to coordinated market economies.*

It is to note, that there are other explanations for cross-country variations in CSR implementation. Brammer et al. (2006) for instance argue that higher CSR levels can more likely be found in economically and politically more developed regions. According to their analysis, there are no close associations with high profile CSR issues in Eastern Europe, and as such local stakeholder expectations regarding CSR issues are lower. Despite a great plurality of legitimacy threats in regions like South America, Africa, and the Middle East, MNCs located there may experience a lower impetus for good CSR integration than those with headquarters in Western Europe (Brammer et al. 2006).

Industrial sector

Institutional conditions may not only vary across countries but also across industrial sectors. As the main challenges are similar to companies of a certain industrial sector, so may be the approaches these companies take towards CSR. Sectors hence represent an important boundary of institutional fields (DiMaggio and Powell 1983). The two most recent studies available on this issue (Jackson and Apostolakou 2010, Knudsen 2011) argue that the impact of a firm's CSR activities on stakeholders differs across industrial sectors. In sectors with higher (perceived) impact on stakeholders, expectations e.g. by consumers or NGOs may also be higher. Consequently, managers in sectors where firms have a strong negative impact upon stakeholders might have more to gain when minimizing risk, e.g. through implementing CSR policies (Jackson and Apostolakou 2010). Jackson and Apostolakou (2010) distinguish between industries with high, low/medium, and mixed impact on stakeholders based on the sector classification by the FTSE4Good index. The former category is mainly comprised of manufacturing sectors, i.e. automobiles, basic resources, chemicals, construction and materials, food and beverage, oil and utilities, plus two service sectors: retail and utilities. Of those industries, central stakeholders like investors, consumers, the local community, and NGOs perceive oil and gas companies as especially risky. The medium/low impact industries consist of banks, consumer goods, consumer services, financials, insurance, media, technology, telecommunications, travel and leisure. Finally, health care, and industrials are classified as mixed industries.

Yet, sector-riskiness is only one possibility to explain variations in UNGC implementation. Two other prominent sector specific factors are the degree of competition as well as industrial self-regulation (Campbell 2007).

Ownership structure

Finally, findings of previous studies about the UNGC suggested that beyond size, region and sector, the type of a company's ownership structure may explain the decision to join the UNGC (UNGC 2011) or engage in CSR in general (Atkinson and Galaskiewicz 1988, Graves and Waddock 1994, Johnson and Greening 1999). As argued earlier, the visibility of a firm and the amount of scrutiny a firms gets may determine the degree of UNGC implementation (Baker 2010). This argument not only refers to the size of a company, but also its type of ownership, especially regarding the distinction between private and public ownership. As the Swiss MNC Glencore recently experienced when changing from private to public ownership status, stricter reporting and transparency requirements sharply increase the firm's visibility together with its amount of public scrutiny.

Further, the analysis of Graves and Waddock (1994) indicated social performance is positively correlated with the number of institutions holding the shares of a company. In another study, it was found that companies gave less money to charity if the CEO or some other individual owned a significant percentage of the company's (Graves and Waddock 1994). Considering these arguments, *on may expect that the benefits of stricter UNGC implementation are greater for public firms - being more visible and more dispersedly owned - than for private ones.*

Again, this argument only applies for more explicit CSR activities. Private companies may well engage in other forms of CSR, which may arguably be of more implicit kind.

Accountability of the UNGC: Substantial versus symbolic UNGC implementation and its societal outcome

Rasche (2009) identified the allegation that "the UNGC is not accountable due to missing verification" as the most popular critique that has consistently appeared since the foundation of the Global Compact by both academics and practitioners (Deva 2006, Engardio 2004, Nolan 2010, Rizvi 2004, June 24). This criticism threatens the legitimacy of the initiative (Williams 2004). Deva (2006) and Rizvi (2004) argue that such a lack of accountability fosters the misuse of the Global Compact as a marketing tool. From a neo-institutional perspective (Meyer and Rowan 1977, Deephouse and Suchman 2008, Suchman 1995), organizations are likely to adapt to a changing institutional environment as a result of their pursuit to gain or preserve legitimacy. If these institutional expectations, however, seem to conflict with the interests of the organization, the management may try to gain legitimacy without actually changing business practices by decoupling formal structures from actual daily operation (Meyer and Rowan 1977, Oliver 1991, Scott 1995).

Behnam and MacLean (2011) developed a framework indicating that standards fulfilling certain conditions - *being clearly defined, having a high cost of adoption, requiring evidence of compliance and levying significant sanctions for non-compliance* - are typically less likely to be decoupled. Their analysis suggested that these characteristics are missing in the Compact. Critics therefore continued to call for verification mechanisms (Williams 2004). As a response to such criticism, the UNGC introduced in 2006 a "Communication on Progress" (COP) policy. Since then, member organizations were required to communicate on a regular basis with the UNGC to reconfirm their commitment towards the 10 UNGC principles and outline the progress made and/or planned. Further, members are labeled *non-communicating* if they failed to submit a COP report within one year. After another year of non-communication, they are delisted from the UNGC (Knudsen 2011). This procedure led to the exclusion of 3,028 former members and currently lists 1,554 members as non-communicating (data as of 08 January 2012).

Nevertheless, the Compact maintains its definition as "a voluntary initiative that relies on *public accountability*, *transparency* and *disclosure* to complement (already existing) regulation" (Global UNGC 2008). The Compact hence continues to abstain from performing verification of the disclosed company information itself or through partners. Since 2007, however, new participants are screened against various global databases to check if they are the subject of sanctions or similar measures (Wynhoven and Stausberg 2010). In the absence of direct monitoring or verification, the UNGC hence builds on two mechanisms to assure accountability: The *power of public transparency* and the *watchdog role of the media and NGOs* (Williams 2004).

As to the first mechanism, Williams (2004) affirms the power of public transparency in the UNGC "since companies will include a discussion of their Compact-related activities in their annual reports". Rasche (2009) also highlights that the progress reports mostly contain information publicized in prominent company documents that are usually approved by a company's board, and therefore identifies this new policy as a promising way towards more accountability.

Regarding the second mechanism, Compact advocates argue that participants' stakeholders foster a "social vetting" mechanism, i.e. they use submitted reports as a basis to judge corporate behavior and file complaints that the UNGC can use as grounds for investigations (Rasche 2009, Wynhoven and Stausberg 2010). This way, "NGOs act as watchdog institutions that speak up if business participants violate any of the principles" (Rasche 2009). Referring to the company Nike as an instructive case in this respect (Zadek 2004), Palazzo and Scherer (2010) ascertain the power of a more and more active civil society that is often making cases public where companies fail to live up to their own declarations. With the introduction of the COP policy, the precondition for these two mechanisms to work – available information - is certainly ensured.

To conclude, with the recent development of the UNGC, the initiative has made big steps towards fulfilling the four conditions of substantial implementation as stated by Behnam and MacLean (2011):

1) A clear implementation guidance is provided by the Differentiation Programme.

2) The cost of adoption is rather high since the introduction of the regular reporting requirements.

3) Compliance has increased through the public availability of all declared information and collaboration with certification based initiatives.

4) Only sanctions for non-compliance are still lacking beyond potential reputational costs of being publicly marked as delisted.

Again, stakeholder theory can be used to theoretically analyze the effectiveness of these accountability mechanisms. In an extended context, the stakeholder concept includes all those entities that maintain a "critical eye" on corporate actions (Bomann-Larsen and Wiggen 2004). This way, stakeholders link the goals and actions of corporations with the expectations of society (Whetten et al. 2002). If the stakeholder management process during UNGC membership leads to substantial change in organizational practices, this process may contribute to the establishment of new critical competencies, resources, and capabilities. It thus helps to the minimize risk through the development of better scanning skills, processes, and information systems. As a consequence, a company might experience less corporate conflicts or - if already faced with a conflict - might be better prepared to appropriately manage the crisis (Russo and Fouts 1997). In their integrative empirical study, Orlitzky and

Benjamin (2001) indeed found that firm risk decreases with increasing CSP[1]. It is to note, however, that the reviewed studies measured firm risk as the degree of financial performance fluctuation, not as intended in this study as the likelihood of facing corporate scandals.

The best way to test whether the presence of the UNGC accountability mechanisms are sufficient for achieving substantial rather than superficial implementation, would be indeed to conduct direct monitoring and verification of a considerable amount of participants. As outlined, not even the UNGC is capable of bearing the costs for such an endeavor.

A simpler way to judge about the substance of the UNGC implementation is by looking at the central outcome a substantial UNGC implementation is expected to generate. The newly introduced UNGC implementation criteria aim to align company structures and processes with the 10 UNGC principles. If a company managed to *substantially* align its structures and policies with all 10 principles, the direct consequence is that future risks regarding the 10 principles decrease. In contrast, there is little reason to assume that a mere symbolic UNGC implementation lowers corporate scandals regarding the 10 UNGC principles.

I consequently assume that the UNGC accountability mechanisms, i.e. the "watchdog role" of the media and NGOs together with the power of public transparency, provide enough "incentives" for corporations to make correct declarations in the absence of direct monitoring or verification structures. This assumption leads to my second hypothesis:

> *Hypothesis 2: Higher declared UNGC implementation actually leads to fewer UNGC related risks.*

Theoretical model of UNGC implementation.

The developed hypotheses on the impact and accountability of the UNGC are summarized in the following table:

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[1] The overall mean observed (r_{obs}) between firm risk and CSP was -.15, with a true-score correlation (ρ) of -.21. The causal direction from prior CSP to lagged risk is even stronger (r_{obs} = -.20; ρ = -.28).

Insert table 1 about here

DATA AND METHOD

This work draws upon two separate data sources.

1) The UNGC business participant database. The data on UNGC business participants was gathered in November 2011. All participant data relevant for answering my research questions is publicly available on the UNGC website. Rather than collecting the relevant information of every participant individually, I contacted the UNGC office and asked for a complete dataset listing all the variables of interest. In response, I received two relevant datasets from the UNGC office. One dataset indicated the *differentiation level* and *country* of all business participants having submitted a COP since the introduction of the program (data as of November 29, 2011). The other dataset contained information on the variables *UNGC entry date*, *sector*, *employees*, *organization type* and *ownership type* of all UNGC business participants (data as of December 7, 2011). After merging and cleaning the two lists, my final dataset consisted of 2280 UNGC business participants.

2) The RepRisk AG data on UNGC and CSR risks. To analyze the relationship between UNGC implementation and corporate CSR scandals, I draw upon a second source of data. This data captures reputational risk and is collected by the Swiss company RepRisk AG. RepRisk provides dynamic business data on environmental, social and governance risks for investors and prominent corporate sustainability assessment institutions like the Dow Jones Sustainability Index. Across currently around 70,000 companies and 5,000 projects worldwide (data as of 09 January 2012), RepRisk AG collects and evaluates negative media coverage to create a reputational risk index „RepRisk Index“:

> The RepRisk Index ranges from zero (lowest) to 100 (highest). It is calculated based on the influence of news sources, the frequency and timing of the news, as well as the news content, including the severity (harshness) and novelty (newness) of the issues addressed. In order to ensure a balanced and objective rating and weighting, news is only entered once into the database, unless it is escalated to a more influential source, appears again after six weeks or additional issues emerge. (RepRisk AG, 2012)

In addition, RepRisk AG provides a specific UNGC risk measure:

> The UNGC Principles and issue indexes are derived from the number, severity and source of news related to the given entity in the last 6 months. The indexes highlight UNGC Principles and issues that are especially controversial and that are being covered by relevant sources. (RepRisk AG, 2012)

Given the role of the media as a “watchdog” or social arbiter, media coverage of corporate scandals may not be significantly influenced by a company’s CSR reporting. Media information on corporate scandals may hence serve as a valid source to monitor and evaluate a company’s actual behavior (see for example Bednar 2012, Miller 2006, Wartick 1992), in our case to trace the amount of CSR scandals a company is involved in.

Dependent variable measures

UNGC implementation. With the newly introduced UNGC Differentiation Programme, we have for the first time a comprehensive measure directly capturing different stages of UNGC implementation. Previous quantitative studies had to rely on simple bivariate UNGC commitment measures, a single policy and/or external rating agencies without direct reference to the UNGC (Bernhagen and Mitchell 2010, Knudsen 2011). Before relying on this new implementation measure, we need to ensure the theoretical validity of the underlying criteria. Baumann and Scherer (2012) are to the best of my knowledge the only scholars who so far operationalized the extended CSR concept underlying the Global Compact for better organizational implementation (see table 2). In their CC assessment tool, Baumann and Scherer (2012) identify three categories that are crucial for organizational CSR implementation: *commitment*, *structures & procedures*, and *interaction*. (1) On the *commitment* level, the corporation demonstrates its willingness for systematic CSR implementation. (2) *Structures & procedures* describe the internal implementation of CC in day-to-day activities. (3) *Interaction* - primarily with external stakeholders - is necessary to gain legitimacy (Scherer et al. 2006, Suchman 1995). Under each category, they list specific criteria closely tied to organizational and management literature. On the Left side of table 2, the highest level of CSR implementation, referred to as "civil" stage (see also Zadek 2004), is listed.

To analyze whether the Advanced criteria are indeed appropriate to depict superior implementation of the underlying CC concept, I will compare these criteria with the highest level of implementation, the "Civil Stage", in the Baumann and Scherer (2012) CC assessment tool.

A perfect match, i.e. an exact equivalence, between the two models can be ascertained if the following three conditions are met: 1) Every criterion from the CC assessment tool has its counterpart in the UNGC Advanced criteria. 2) Every UNGC Advanced criteria has its counterpart in the CC assessment tool criteria. Nothing should be demanded for CC implementation that cannot be theoretically justified. 3) There are no (or only minimal) possibilities to formally circumvent the CC assessment tool criteria through "loopholes" or the lack of clarity in the UNGC Advanced criteria. It is to note that it is beyond the scope of this study to control for the fact that participants can deliberately make false statements regarding the 24 criteria, e.g. companies declaring that their "COP qualifies for Level B or higher of the GRI (Global Reporting Initiative) application levels" (criterion 23, suggested best practice number two) when in fact they are not.

Table 2 provides the results of matching the UNGC Advanced criteria with the CC assessment tool.

Insert table 2 about here

Ad 1) The criterion-based comparison shows that, indeed, all CC assessment tool criteria are addressed in at least one UNGC Advanced criterion. Several CC assessment tool criteria are even addressed in various UNGC Advanced implementation level due to the issue-specific nature of the Advanced criteria. The need for specifying implementation criteria for certain issue areas has been identified by Baumann and Scherer (2012) as necessary grounds for future research. The UNGC Advanced criteria 5-20 address the four issues human rights, labor, the environment and anti-corruption with respectively 4 criteria (commitments, management systems, monitoring and evaluation mechanisms, and standardized performance indicators). The first condition is therefore fully met or even exceeded.

Ad 2) After having matched every CC tool criterion with the corresponding UNGC Advanced criteria, none of the 24 Advanced criteria remained unconsidered. Hence, the UNGC Advanced stage requires nothing that could not be justified on theoretical grounds, so that the second condition is also fully met.

Ad 3) Three CC tool criteria “alignment of incentive structures”, “provision of training” and “complaints procedure” are not directly addressed in any of the UNGC Advanced criteria itself, but only in one of the suggested best practices of these criteria. This is highlighted in table 2 through italic font. As participants only have to fulfill at least one best practice of each criterion, they have the possibility to circumvent these three criteria by simply referring to another “best practice”. Further, some suggested best practices, e.g. “Allocation of responsibilities and accountability within the organization” (UNGC Advanced criterion 5, best practice number 4), are less clear-cut than the one regarding GRI application levels mentioned above. Due to the existence of these “loopholes” and several remaining inaccuracies, the third condition is only partially met.

Given the necessity to maintain a certain degree of generalizability within the 24 criteria that are valid for all sort of businesses around the globe, some circumventing opportunities or inaccuracies may be deemed to be unavoidable. Hence, a "reasonably" good match between the two models may still be ascertained. Nevertheless, to eliminate these circumventing opportunities and reach the best possible match between the two models, I will specify a second UNGC differentiation model, referred to as *UNGC+ Implementation*. To this end, I add a fourth – "Civil" – stage to the three original *UNGC Implementation* stages. This highest achievable stage includes only companies of the original UNGC Advanced level that declare to implement all three best practices (alignment of incentive structures, provision of training, complaints procedure) in all four issue areas.

Although the UNGC Advanced criteria can be judged as a theoretically well-informed possibility of signaling higher levels of CSR implementation, we still have to keep in mind that this differentiation scheme relies on the correctness of the declarations made by the participants. The CSR implementation levels as discussed in this work should therefore always be regarded as "formally-declared" CSR implementation levels.

First, I use this original classification scheme to measure the degree of UNGC implementation. I assign the different stages the following coding: "Learner" = 1; "Active" = 2; "Advanced" = 3.

UNGC+ implementation. Second, I use the self-constructed UNGC+ classification scheme to measure CSR/CC implementation in direct correspondence to the theoretical CC assessment tool of Baumann and Scherer (2012). In addition to the coding of the original UNGC classification, I code the defined fourth implementation stage "Civil" = 4.

In a later analysis to trace the outcomes of UNGC implementation, *UNGC implementation* and *UNGC+ implementation* are used as independent variables.

Reputational Risk. I use the RepRisk index from RepRisk AG to analyze a possible relationship between UNGC implementation and negative media coverage. As these reputational risk indices have to be collected manually from the RepRisk AG website, I restrict this part of my analysis on the UNGC business participants that are among the global 500 companies with the highest turnover (FT500; data as of November 2011). This restriction resulted in 160 observations.

As my insights into the specific calculation of the respective company risk indices are limited, I want to base my results on the broadest ground possibly. I therefore use two different risk measures, as presented above. First, the UNGC risk measure captures data between 21 November 2011 and 21 May 2012, i.e. the 6 month period directly after having retrieved the UNGC implementation scores. Second, the general CSR risk measure capturing the month of retrieving the UNGC implementation data, i.e. November 2011. In this case, no causality will be implied

Independent variable measures

Membership time. To be able to analyze the effect of membership time on UNGC implementation, I recoded the *date of UNGC entry* in the dataset into completed *membership years*.

Control variables

In my analysis about the effect of UNGC membership time on UNGC implementation, I will control for *company size*, *country & region*, *sector & industry*, and *ownership.*

Size. I use the number of employees as a measure for company size. The analysis of the number of employees across companies in my sample revealed that the presence of several very large firms leads to a positively skewed distribution. After applying a natural logarithm (ln) transformation to the number of employees, the distribution resembled a normal distribution. I hence include measure company size in my study through the ln transformed number of employees.

Country & Region. Regions enter into my regression analysis as dummy variables; if the company is located e.g. in "Western Europe" its value is 1 for this region dummy and 0 for all others. In the regression, the country dummy "United States of America" is omitted and serves as a reference point for a typical liberal market economy against which more coordinated market countries can be compared.

Countries with 50 or more business participants in the UNGC are listed separately. It is hence not included in the region dummy variable; for example, "Germany" is listed separately having 82 business participants in the UNGC, and the "(Rest of) Western Europe" dummy excludes these companies.

The regional categorization is based on the UN statistics division data on the composition of macro geographical (continental) regions and geographical sub-regions. In addition, I grouped the Carribeans and Central American companies together into "Central America"; for further specification, I defined the regional category "MENA" as those countries originally associated with the Middle East and North Africa.

Sector & Industry. As with the "country" variable, I transformed "sector" and "industry" into dummy variables. I grouped the sectors as classified in the dataset obtained by the UNGC office into 19 "supersectors" and 10 industries as defined by the Industry Categorization Benchmark (ICB), 2011.

Ownership. In the dataset obtained from the UNGC office, business participants are grouped into four different types of ownership (public, private, state-owned, subsidiary), which also go into the regression as dummy variables.

Analyses

In this paper, I rely on Ordinary Least Squares (OLS) regression analyses. This implies that we no longer treat the different implementation levels as ordinal ranks. Instead we assume an interval scale, i.e. that the distance between each level is equal. To be sure that this interval scale assumption does not significantly change our results, I applied an ordered probit model in addition, wherein the different levels are treated as purely ordinal.

The two models of table 3 analyze the determinants of UNGC implementation; the first model uses *UNGC Implementation*, the latter *UNGC+ Implementation* as dependent variable.

The four models of table 4 analyze the relationship between UNGC implementation and CSR or UNGC risk. The first two models use the RepRisk measure for UNGC risks, while the latter two models use the RepRisk measure for general social and environmental risks. The first and third model use the original UNGC implementation measure, while the second and fourth model use the UNGC+ implementation measure.

In all models, I tested for heteroscedasticity by applying the Breusch-Pagan/Cook-Weisberg test (see Breusch and Pagan 1979). The test revealed that heteroscedasticity is indeed present. To reach robustness against heteroscedasticity, i.e. to be sure that a possible presence of correlated or not-normally distributed residuals does not invalidate my statistical significance tests, I applied a robust variance estimator, typically referred to as Huber, White or sandwhich estimator (see for example White 1980).

RESULTS

Descriptive observations

Of all 2280 business participants, almost a quarter (23%) implements the UNGC at the Learner stage, the vast majority (71%) is at the Active stage while only a very tiny fraction (6%) declares to implement the UNGC at the Advanced level. For the 160 UNGC participants listed in the FT500, the fractions of Learner (10%) and Advanced (24%) implementers are almost inverted compared to the total sample, with the Active implementers still constituting by far the biggest fraction (66%). Similarly to previous UNGC publications (Global UNGC 2011), more than half of the companies (52%) are located in Europe. The two other prominent regions for UNGC business membership are Latin America (including Central America and the Carribeans) (18%) and Asia (16%). Further, also present in my sample is the remarkably small portion of North American UNGC companies (5%), which scholars explained as a result of the more litigious society in North America than in Europe or Latin America (Hemphill 2005, Williams 2004). Companies from the rest of the world (Africa, Middle East & North Africa, Oceania) together account for only 8 percent of UNGC participants in my sample. With the underlying coding, the total mean of UNGC implementation in the sample is 1.82, hence slightly below the Active level. This mean is distributed by region in a relatively small range between 1.77 (Oceania) and 1.91 (Middle East and North Africa MENA). While the mean of European UNGC implementers is slightly lower (1.81) than the total mean, the average implementation level of business participants from the three German speaking European countries Austria (1.94), Germany (1.85) and Switzerland (1.88) is well above the total mean. In North America, US business participants achieve an average UNGC implementation score (1.84) above the total mean, while the implementation mean of Canadian companies (1.81) is slightly below the total mean.

Hypothesis 1: Impact of UNGC membership time on UNGC implementation

The regression analyses of table 3 report the effect of membership time on UNGC implementation. Both complete models of table 3 are significant (*F* 7.7 and 8.6) and explain 15 percent of the variance ($R^2 = 0.15$).

Insert table 3 about here

In both models, *membership time* has a significant positive influence on UNGC/UNGC+ implementation. This result suggests that both the Compact criticism in Academia as well as the enthusiasm among Compact business members has to be reconsidered. On the one hand, the highly significant positive relationship between the time of membership in the initiative and the degree of implementation makes it difficult to deny any impact on organizational practices. On the other hand, the very little size of the effect (β = 0.02) suggests that the existing practitioner studies about the UNGC impact may have some upward biases.

We have to recall that this effect only reflects the net impact of UNGC membership, i.e. it excludes learning effects from sources outside the Compact.

We further have to keep in mind that the underlying data is cross-sectional and does not trace the implementation scores of participants over time. Nevertheless, we can analyze the effect of membership time on UNGC implementation in more detail by applying “lowess smoothing”, a procedure which carries out locally weighted regression of *membership years* on *UNGC implementation* (figure 1).

Insert figure 1 about here

If we assume that UNGC participants on average undergo a similar development of CSR implementation, we can interpret the graph in figure 1 as a learning curve. If we further exclude learning opportunities outside the Compact, this figure reveals a slight decline of UNGC implementation in the first two years of membership, which is followed by a continuous increase of UNGC implementation in the years thereafter. Under these assumptions, participants would reach the Active level after 10 years of membership. Due to the recently introduced one-time 12 months grace period for companies at the Learner stage, the average duration for reaching the Active level is expected to diminish significantly. The direction and significance of this relationship remain unchanged when applying an ordered probit analysis.

Overall, these *findings ascertain the UNGCs impact on organizational implementation of the 10 principles and thus provide support for my first hypothesis*.

General determinants of UNGC implementation (controls)

Table 3 also provides the results for determinants of UNGC and UNGC+ implementation.

All four types of determinants (national institutional context, size, sector, ownership type) influence UNGC implementation.

Size

Size significantly and strongly increases UNGC implementation, measured by the (ln) number of employees.

This results thus supports previous findings stating that higher visibility and capacity of large companies lead to higher CSR implementation.

National institutional context

My results show that UNGC implementation can vary significantly across countries. However, this *variation seems not to depend on the type of national business systems as postulated by previous scholars* (Jackson and Apostolakou 2010, Khanna et al. 2006). Indeed, implementation scores of companies in the liberal market economy system of the UK do not significantly vary from scores in the US. On the other hand, most companies from countries with a coordinated market economy do not implement significantly lower than the US benchmark. In fact, of such countries, only French companies are implementing the UNGC significantly lower than the US, whereas companies from Japan, Italy and Spain are implementing significantly higher.

Industrial sector

Surprisingly, only very little variation of UNGC implementation can be explained by the sectoral context of a firm. Taking the Automobiles & Parts sector as the benchmark category of a high impact sector, company levels of UNGC implementation in most other sectors do not significantly differ. The only significant result is that companies in the Utilities sector implement the Global Compact significantly higher than companies in the Automobiles & Parts sector. There are no sectors classified with a low or medium impact that implement significantly lower than our benchmark sector of the high impact category.

These results therefore again tend to contradict the postulations of prior scholars (Jackson and Apostolakou 2010, Knudsen 2011) explaining differences in CSR implementation by different degrees of perceived negative sector impact on stakeholders.

Ownership type

Finally, my results suggest that the type of ownership explains variation in UNGC implementation. Public companies implement the Compact significantly higher than private ones. These results are hence in line with prior literature arguing that stronger visibility and dispersion of ownership in publicly owned companies is a strong driver for UNGC implementation.

Hypothesis 2: Accountability of the UNGC – declared implementation and CSR scandals

Finally, table 4 provides results for the relationship between UNGC implementation and CSR or UNGC risks. All complete models 1 to 4 are significant. They all explain around 35 percent of the variance (R^2 between 0.346 and 0.348). The control variables *size*, *region*, *industry* and *ownership type* show a significant effect on the dependent variable.

Insert table 4 about here

Models 1 and 2 use the particular UNGC risk measure covering the six month period after the UNGC implementation scores have been retrieved. Neither model 1 using original UNGC implementation as independent variable nor model two using UNGC+ implementation reach significant results.

Models 3 and 4 use data about UNGC implementation and reputational risk of about the same time period: the implementation scores are retrieved on 29 November 2011. The reputational risk index thus captures all negative media coverage released in November 2011. Consequently, we can analyze the simultaneous relationship between the two variables, yet without tracing causality. The independent variables *UNGC Implementation* and *UNGC+ Implementation* both show a negative relationship to the dependent variable (β = -0.672 and -0.884), which however is not significant.

To mitigate the problem of reverse causality, i.e. the possible effect that companies join the UNGC because of recent bad press, I used a one-month time lag between data on UNGC implementation levels and reputational risks (not reported here). The data on reputational risk used in these models covers the period of 1 to 30 December 2011, while all other data in the models stays unchanged. The findings remain mainly the same: They suggest a negative yet insignificant relationship between the two variables of interest. Incorporating causality in my argumentation, we can now argue that higher formal CSR implementation in the UNGC reduces reputational risk. However, this influence remains insignificant, at least in the short run, given a one-month time lag.

Having analyzed both the specific UNGC risk measure as well as general CSR risk measures of two different time periods, we did not find significant results supporting the argument that higher declared UNGC implementation leads to lower CSR or UNGC risks.

Hence, my second hypothesis has to be rejected.

DISCUSSION AND CONCLUSION

The purpose of this study is to analyze the impact and accountability of the UN Global Compact. Two research questions therefore guide this study. First, *"Does UNGC membership time affect UNGC implementation?"* and second, *"Does the new UNGC accountability structure ensure that declared UNGC implementation corresponds with actual UNGC implementation?"*.

I focused on the worldwide largest voluntary CSR initiative – the UN Global Compact – to analyze these questions, since this initiative best captures the extended CSR concept underlying my study. To be able to comprehensively answer my two research questions, I included several data sources. The first source depicts information about UNGC participants and their level of CSR implementation. I checked the theoretical validity of the underlying UNGC differentiation criteria before relying on the CSR implementation levels in this data. The second data source reports the level of CSR or UNGC risk of a sub-sample of participants in my study – UNGC members listed in the "FT Global 500".

Major findings

The matching between the only existing theoretical assessment tool referring to the UNGC of Baumann and Scherer (2012) with the UNGC Differentiation Programme revealed, that the UNGC has developed a theoretically informed model of differentiating CSR implementation among its participants despite the existence of some "loopholes" and inaccuracies regarding certain best practice formulations. These "loopholes" can be closed by compulsorily prescribing participants aiming for the Advanced level to incorporate three CSR elements in all four issue areas: "Alignment of incentive structures", "provision of training", and "installation of a complaints procedure".

My results clearly suggest a positive albeit moderate learning effect among participants regarding UNGC implementation. This effect is based on the CSR implementation according to both the original UNGC Differentiation Programme as well as the UNGC+ Differentiation scheme. Further, the learning effect is apparent in both the OLS and the ordered probit analysis. These findings support my first hypothesis and contribute to the CSR literature by ascertaining the UNGC its capability to fulfill its primary mission – providing learning experience.

Previous research has mainly neglected to analyze such an effect on a comprehensive quantitative basis. The existing quantitative studies relied on personal opinions about the "Impact of Global Compact participation on corporate responsibility policies and/or practices" (UNGC 2011). In the 2010 UNGC implementation survey, only 16 percent stated that the Compact has a minimal impact (5% assigned no impact to the Compact). The vast majority (79%), however, stated that the Compact has at least a moderate impact. The UNGC study of McKinsey & Company (2007) reports similar findings with 59 percent of the respondents declaring to do much more toward the Compact's principles than 5 years ago.

To assess the level of CSR implementation, my study also relies on participant declarations. However, to derive the UNGC's impact on organizational practices over the years, I draw upon the objective measure *membership time*. This allows us to solely regard the net impact of UNGC membership. My findings suggest that the impact on UNGC implementation solely derived from UNGC membership is much lower than suggested by participants of the 2010 implementation survey. If the UNGC was the only platform for learning to enhance CSR implementation, the membership time coefficient $ß = 0.02$ in my analysis would imply that companies need on average 50 years to advance from one differentiation level to the next. In this respect, we need to scale down the very optimistic expectations regarding the UNGC's impact suggested by previous studies.

We further found that firm size as well as public ownership are positive drivers for UNGC implementation. While national and industrial institutional factors also tend to influence

UNGC implementation, the relationship cannot be explained by distinguishing between two types of national business systems or between certain degrees of negative industry sector impact on stakeholders.

Regarding my second hypothesis about the accountability of the UNGC, i.e. the impact on declared implementation on UNGC risks, the analysis revealed a negative albeit insignificant relationship between the two variables. Companies declaring to implement CSR at higher levels face *insignificantly* less UNGC or CSR risks than companies declaring to implement CSR at lower levels. Under the assumption of a negative relationship between actual CSR implementation and reputational risk, these findings suggest that declared UNGC participant information is at least partly decoupled from actual implementation. We may hence be careful to take all information at face value. On the contrary, my findings did not provide evidence for systematic decoupling among UNGC members, which I would have expected in the case of a positive relationship between formal CSR implementation and bad press.

Implications for the UN Global Compact and its Participants

My results suggest that the Compact in its present form, with the established structures (e.g. learning events, dialogue events, partnership projects) and policies (e.g. COP, Differentiation Programme) is indeed capable to stimulate learning. However, the Compact and its participants need to be aware of the modest size of the initiatives' impact. In future surveys, the UNGC may ask respondents about the impact of a list of other CSR initiatives in addition to the UNGC, which may lead toward a more realistic evaluation of the Compact's net impact.

My findings further suggest that the UNGC in its current state is not at the edge of losing its legitimacy as a result of lacking accountability. The negative (yet insignificant) relationship between CSR implementation and bad press may suggest that, on the one hand, the Compact is not a venue for opportunistic behavior helping companies to bluewash a poor CSR record.

On the other hand, due to the lack of significance in this relationship, we cannot conclude that higher formal CSR implementation necessarily implies higher actual implementation, which one might expect to go hand in hand with less UNGC or CSR risks in general. This finding implies that companies do not need to fear a reputational loss if they are joining the UNGC to improve CSR implementation. On the contrary, companies may be warned that the mere fact of entering the Compact is not enough for bluewashing their damaged reputation.

Limitations and Future Research

Of course, this study has its limitations, some of which might serve as a basis for future research. First, to assess CSR implementation on a large quantitative basis, I have to rely on the information declared by participants. Due to the accountability mechanisms in place – transparency and the "watchdog" role of the media – a possible decoupling of declared from actual implementation may be mitigated. If, however, the central aim of the researcher is to explore the gap between declared and actual CSR implementation in the best possible manner, it appears inevitable to include qualitative studies, at the cost of lacking generalizability. By qualitatively studying one or more of the companies examined by Baumann and Scherer (2012), it may already be possible to trace the development of "decoupling" over time.

Another constraint is the largely cross-sectional nature of the underlying data. Hence, we have to be careful not to neglect the possibility of reverse causality. Regarding my first research question, it appears impossible that the decision to formally implement CSR at high levels influences the time a company has been a UNGC member. However, it may influence the decision to exit the Compact. This possibility is excluded in my study, which is restricted on current UNGC participants only. Moreover, the assertion of a learning effect through UNGC membership in my study is based on the assumption that each company enters the UNGC with on average the same level of existing CSR and undergoes on average the same learning process during its membership. This implies for example that, today, a company with 10 years of membership implemented CSR 8 years ago at the same level as a company with 2 years of membership in my current sample. We have to be aware that such an interpretation neglects time dependent CSR implementation trends beyond the effect of UNGC membership. To avoid this causality issue, future research needs to work with longitudinal data tracing CSR implementation levels of each UNGC participant over time. In a next study, I therefore plan to incorporate the annual UNGC implementation surveys conducted since 2006 with around 1,000 respondents each in my analysis.

The issue of reverse causality is particularly present in my second research question concerning the relationship between UNGC implementation and negative media coverage: High implementation may lead to less bad press; or, bad press may influence the decision to declare high implementation levels in an attempt to bluewash a poor CSR record. To make judgments beyond a mere correlation between the two variables and mitigate the problem of reverse causality, I included a second data set on reputational risk with a one-month time lag. This relatively short time lag, however, may not be sufficient to clearly distinguish between the two effects. Future research should therefore study this relationship with larger time lags, which is not yet possible with my data at this point in time. Moreover, to diminish the influence of extraordinary events or scandals in monthly reputational data, consolidated data on reputational risks over the last years may be used in the analysis. To extend this line of research on the basis of negative media coverage, scholars may in future even investigate whether higher CSR implementing companies manage to get "back to normality" in a shorter period of time than lower CSR implementing companies.

The results of my analysis may also serve as a basis for future research to analyze the relationship between the design of global accountability standards and the presence of "decoupling". Haack et al. (2012) recently analyzed the "Equator Principles" credit risk management framework. Their findings suggest that "decoupling" was indeed necessary to achieve higher degrees of CSR implementation in the long run, as it generated the critical mass necessary for change in the first place. Further research could test the existence of a similar process between the development of the UNGC framework and its actual implementation.

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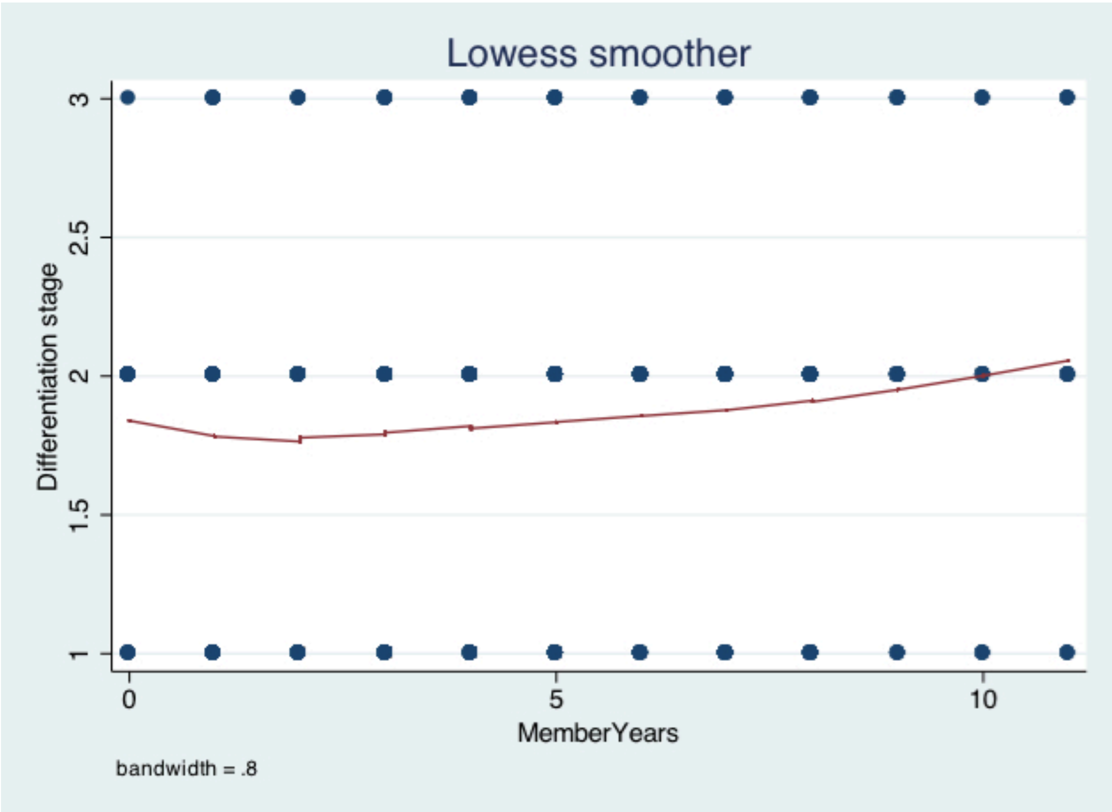
LIST OF FIGURES

Figure 1: differentiation stage by membership time



LIST OF TABLES

Table 1: Model of UNGC implementation (own computation)

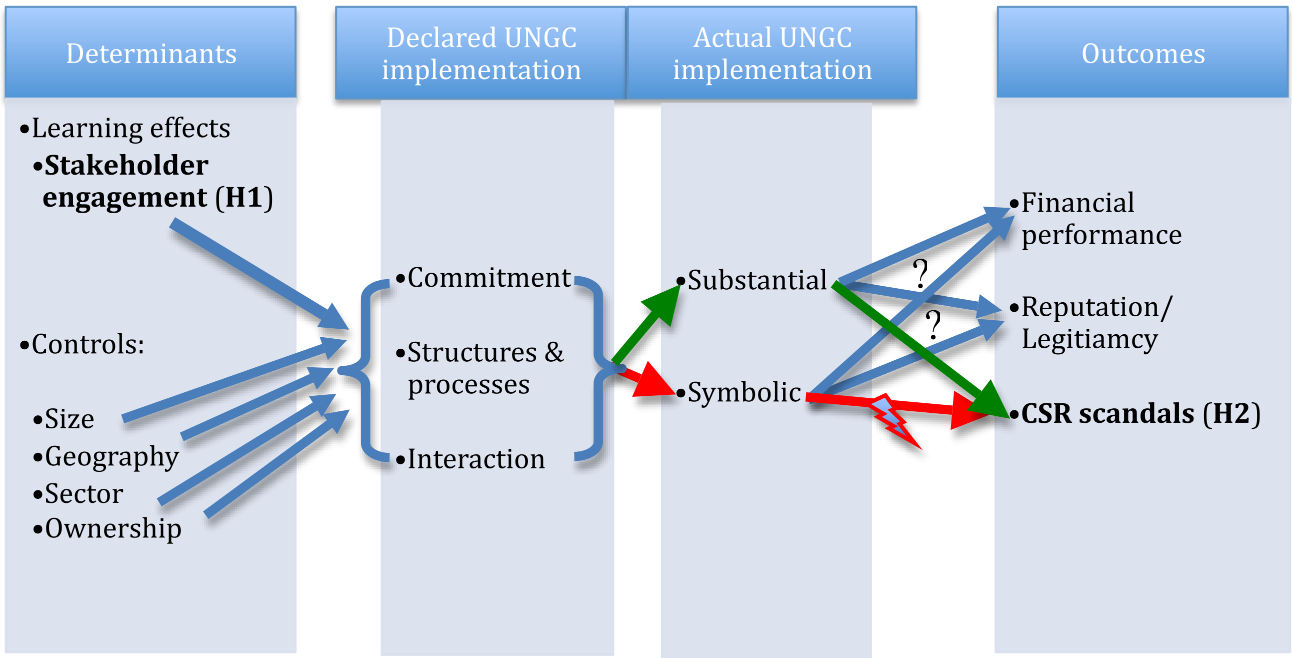


Table 2: Matching the CC "Civil" stage criteria with the UNGC Advanced criteria

Framework CC category CC criteria	**CC assessment tool "Civil" stage** (acc. to Baumann and Scherer 2012)	**UNGC Advanced implementation criteria**
	Commitment	
Strategic integration/ Leadership support	• CC significant value in company's mission statement and all other documents • Respecting stakeholders' demands is central to the company's mission. • CC used by top management to justify company decisions. • Legal compliance and compliance with the Code is equally important.	• Criterion1: The COP describes C-suite and Board level discussions of *strategic aspects* of Global Compact implementation • *Criterion 5 (9/13/17): The COP describes robust commitments, strategies or policies in the area of human rights (labour/ environmental stewardship/ anti-corruption)* • *Best practice: Written company policy (e.g., in code of conduct)*
CC-Coordination	• CC-Committee is drafting the CC strategy in line with the overall company strategy. • Recommendations are forwarded to the Executive Committee, which decides over the implementation on a periodic basis. • A CC- department is in charge of coordinating the implementation process. • Top management is directly and regularly involved.	• Criterion 2: The COP describes effective *decision-making processes and systems of governance* for corporate sustainability • *Criterion 5 (9/13/17): (see above)* • *Best practice: Allocation of responsibilities and accountability within the organization*
	Structures & Procedures	
Alignment of policies and procedures	• All elements of the CC- commitment translated into policies and procedures. • These are the basis for all business processes, including the management of the global supply chain. • Policies and procedures regularly reviewed and revised; feedback from internal and external stakeholders is integrated.	• Criterion 5 (9/13/17): (see above) • Criterion 6 (10/14/18): The COP describes effective *management systems* to integrate the human rights (labour/ environmental/ anti-corruption) principles • Criterion 21: The COP describes implementation of the Global Compact principles in the *value chain*
Alignment of incentive structures	• Incentive structure is fully aligned with the commitment to CC • Important factor for assessing individual performance. • Decisions over promotion and bonus depend on respect for CC principles.	• *Criterion 2: (see above)* • *Best practice: Executive incentive structures promoting sustainability strategy in line with Global Compact principles*
Provision of training on CC requirements	• Training is provided to all employees to prepare for decision-making situations and encourage discussion. • Training courses are adapted to the company's context • Specific groups within the organization are targeted for follow-up courses. • Company shares training material • Initiates the development of training material for innovative topics.	• *Criterion 6 (10/14/18): (see above)* • *Best practice: Internal awareness-raising and training*
Creation of a complaints procedure	• Confidential complaints channel is provided • Easy access guaranteed	• *Criterion 6 (10/14/18): (see above)* • *Best practice: Grievance mechanisms, communication*

	• Procedure is communicated • Cases are analyzed to further improve the systems. • Reporting is a duty.	*channels and other procedures (e.g. whistleblower mechanisms) for reporting concerns or seeking advice*
Evaluation of CC implementation	• Impact assessment methods of CC initiatives are developed in multi-stakeholder forums. • Methods are revised regularly • Results are discussed publicly (both, positive and negative).	• Criterion 7 (11/15/19): The COP describes effective *monitoring and evaluation mechanisms* of human rights (labour/ environmental stewardship/ anti-corruption) integration • Criterion 24: The COP is independently verified by a credible third-party
Reporting on CC	• CC-data is fully integrated in the annual report. • CC-data is produced based on KPIs that are gathered regularly • GRI guidelines are followed. • Regular reporting on good practices and lessons learnt in the context of CC. • Transparency of targets, means and measurements.	• Criterion 23: The COP incorporates high standards of *transparency and disclosure* • Criterion 8 (12/16/20): The COP contains *standardized performance indicators* (including GRI) on human rights (labour/ environmental stewardship/ anti-corruption) • Criterion 22: The COP provides information on the company's *profile and context of operation* • Criterion 24: The COP is *independently verified* by a credible third-party
Interaction		

Quality of stakeholder relationships	• Engagement with stakeholders on a regular/need basis.
	• Dialogue with stakeholders is seen as a necessary seismograph for society's changing awareness of particular issues.
	• Civil society's expertise is regarded as a valuable asset in order to problem-solve.
		• Criterion 3: The COP describes engagement with all important *stakeholders*
		• *Criterion 6 (10/14/18): (see above)*
		  • *Best practice: Regular stakeholder consultations*
		  • *Best practice: Inclusion of minimum human rights () standards in contracts with suppliers and other relevant business partners*

Level of participation in collaborative CC-initiatives	• Membership in CC- initiatives • Including verification organizations • Share CC good practice examples and lessons learned. • Proactive engagement and efforts to integrate companies that are not yet members.	• Criterion 4: The COP describes actions taken in support of *broader UN goals and issues*

Table 3: Results of Regression Analysis for Determinants of UNGC Implementation[a]

Variable	UNGC Implementation	UNGC+Implementation
Membership years	0.02***	0.02***
Size (lnEmployees)	0.037***	0.041***
Region (“USA“ omitted)		
Africa	0.017	0.018
Asia (excluding countries below)	-0.106	-0.103
China	-0.082	-0.082
India	-0.106	-0.121
Republic of Korea	0.076	0.130
Japan	0.127*	0.147*
Central America	-0.004	0.001
Eastern Europe	-0.039	-0.024
Turkey	0.162*	0.170*
Latin America (excl. countries below)	0.045	0.077
Argentina	-0.030	-0.018
Brazil	-0.017	0.012
Colombia	-0.050	-0.030
MENA	0.198**	0.229**
Oceania	-0.036	-0.025
Western Europe (excl. countries below)	0.037	0.048
Austria	-0.019	-0.023
Denmark	0.091	0.110
France	-0.308***	-0.296***
Germany	0.003	0.011
Italy	0.216*	0.234*
Spain	0.277***	0.323***
Sweden	-0.016	-0.015
Switzerland	0.009	0.005
United Kingdom	-0.059	-0.052
Canada	-0.052	-0.057
Mexico	-0.003	0.000
Supersectors (Automobiles & Parts omitted)		
Banks	0.134	0.122
Basic Resources	-0.001	0.003
Chemicals	0.077	0.082
Construction & Materials	0.124	0.115
Equity/Non-Eq. Invest. Instrum.	-0.111	-0.108
Financial Services	-0.011	-0.003
Food & Beverage	-0.028	-0.036
Health Care	0.112	0.121
Industrial Goods & Services	0.072	0.070
Insurance	0.138	0.124
Media	-0.046	-0.050
Oil & Gas	0.073	0.095
Personal & Household Goods	0.060	0.050
Real Estate	0.035	0.032
Retail	0.013	-0.007
Technology	0.049	0.056
Telecommunications	0.091	0.113
Travel & Leisure	-0.056	-0.047
Utilities	0.231**	0.258**
Ownership type (“Private company“ omitted)		
Public company	0.076**	0.080*
State-owned company	-0.018	-0.015
Subsidiary	0.100*	0.096
Constant	1.442***	1.398***
R^2	0.150	0.148

[a] $N = 2280$. All coefficients are OLS regression coefficients.

* $p<0.05$, ** $p<0.01$, *** $p<0.001$

Table 4:
Results of OLS Regression Analysis for Relationship between UNGC Implementation and UNGC/CSR Risk[a]

	UNGC Risks (11/11 - 05/12)		**CSR Risks** (Nov2011)	
Variable	**Model 1**	**Model 2**	**Model 3**	**Model 4**
UNGC Implementation	-0.404		-0.672	
UNGC+ Implementation		-0.305		-0.884
Membership years	0.000**	0.000**	0.003**	0.003**
Employees (ln)	0.950***	0.956***	5.033***	5.073***
Region ("Africa" omitted)				
Asia	1.067	1.115	11.461**	11.363**
Europe	1.273	1.312	12.123**	12.174**
Latin America	2.480*	2.576*	15.630**	15.848**
MENA	3.152*	3.193*	7.392	7.368
North America	2.042**	2.100**	18.710***	18.614***
Oceania	2.437**	2.510**	17.675**	17.633**
Industry ("Basic Materials" omitted)				
Consumer Goods	-1.108	-1.110	-13.759**	-13.856**
Consumer Services	-3.158	-3.168	-18.344**	-18.517**
Financials	-2.217**	-2.217**	-11.299*	-11.460*
Health Care	-3.165***	-3.173***	-12.586*	-12.659*
Industrials	-1.625	-1.631	-15.655**	-15.660**
Oil & Gas	-0.415	-0.389	3.682	3.690
Technology	-0.737	-0.750	-17.252***	-17.233***
Telecommunications	-3.686***	-3.681***	-18.289***	-18.290**
Utilities	-1.036	-1.050	-8.188	-8.192
Ownership type ("Private company" omitted)				
Public company	0.965	0.943	5.295*	5.158*
State-owned company	-1.655	-1.656	-3.425	-3.787
Subsidiary	-1.131	-1.154	1.775	1.684
Constant	2.689	2.371	3.555	3.842
R^2	0.347	0.346	0.347	0.348

[a] $N = 160$. All coefficients are robust regression coefficients.
* p<0.05
** p<0.01
*** p<0.001

Appendix 1: The Ten Global Compact Principles

Area	Principles
Human rights	P1: Businesses should support and respect the protection of internationally proclaimed human rights; and P2 : make sure that they are not complicit in human rights abuses.
Labor conditions	P3 : Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; P4 : the elimination of all forms of forced and compulsory labour; P5 : the effective abolition of child labour; and P6 : the elimination of discrimination in respect of employment and occupation.
Environment	P7 : Businesses should support a precautionary approach to environmental challenges; P8 : undertake initiatives to promote greater environmental responsibility; and P9 : encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption	P10 : Businesses should work against corruption in all its forms, including extortion and bribery.

Source: UNGC (2012a)